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The finances of the state

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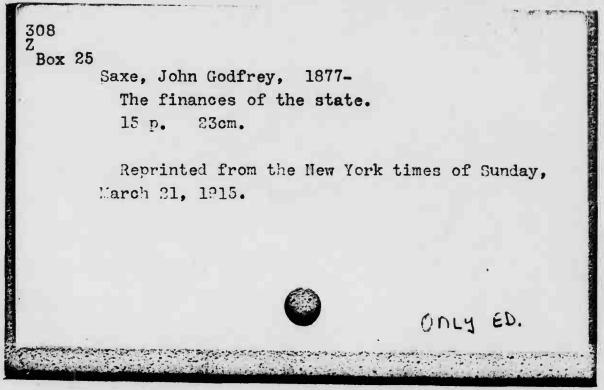

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THE FINANCES OF THE STATE

BY

JOHN GODFREY SAXE

(Reprinted from THE NEW YORK TIMES of Sunday, March 21, 1915)

Mar 28, 1916 03.03.

THE FINANCES OF THE STATE.

I have been asked to write on State finances, and in particular to make an exposition indicating how the State Government legislates in respect to State finances; how the condition of the State, at any particular point of time, may be ascertained, and how estimates may be made, at any such times, indicating the present and future needs for revenue.

In the first place, it should be perfectly obvious that, in discussing the condition of the State at any given period of time, regard must be had to both sides of the ledger, to wit: the cash surplus and the resources of the State on the one side, and the obligations of the State upon the other side.

State Revenue.

The State raises the greater part of its revenues by general laws, enacted from time to time during a long period of years, familiar examples being laws providing for corporation taxes and inheritance taxes, the secured debt law and the like. When at any given time the State's resources are insufficient for the current fiscal year, or appear to be insufficient for the next fiscal year, the administration is bound to provide additional sources of revenue, either by some new ingenious law for additional indirect taxation or by the imposition of a direct State tax.

State Obligations.

The State incurs its obligations by the action of its various officials and agencies, performed pursuant to law.

Appropriations.

Appropriation bills are not revenue bills; nor do they create any State indebtedness. Appropriations are neither cash, assets or liabilities.

Appropriations Distinguished from Obligations.

The Constitution provides that "no money shall ever be paid out of the Treasury of this State, or any of its funds, or any of the funds under its management, except in pursuance of an appropriation by law; nor unless such payment be made within two years next after the passage of such appropriation act" (Article 3, Sec. 21).

An appropriation is not a liability. The State, in annually appropriating millions of dollars, does not thereby create a corresponding amount of liabilities, nor any liabilities at all. An appropriation is an **authority** from the Legislature to the proper officers to apply sums of money out of that which may be in the Treasury to specified liabilities of the State **if and when incurred.** There are many methods by which the State may incur liability. The making of an appropriation is not one of them; but the appropriation is merely the preliminary step which renders money **available** to pay an **obligation otherwise created.**

To put it somewhat differently, in estimating liabilities, the basis must be liabilities as they appear in the various departments of State Government. The mere fact that more money has been made available for liabilities than there are liabilities does not make the excess or "unexpended balance" a liability. This distinction is an important one, and should be kept in mind. For instance, on Oct. 1, 1914, the amount of appropriations upon which no demand had been made amounted to $13,816,306.76. These are known as

"unexpended balances." There is no reason for any confusion or perplexity about them. A gross figure of unexpended balance of appropriations gives no clue whatever to needs for revenue; but the needs can readily be ascertained by looking at the purpose for which each item of appropriation was made and ascertaining, in the proper departments of State, whether any liability has been incurred which will make a demand upon such item of appropriations, and, if not, the probability of such liability being incurred during the period for which the estimate is to be made—and that is all there is to it!

For example, the New York City accountants, who recently examined the State's books, in order to determine the condition of the State, commenced their figuring by adding together:

Unexpended balances on Oct. 1, 1914	$13,816,306.76
Appropriation bill of 1914 for 1915	30,276,548.25
Contributions to the sinking fund in 1914 for 1915	7,677,138.99
Gov. Whitman's proposed supply and special bills for 1915	15,524,309.54
And thus arrived at the total estimated appropriations for 1915, amounting to	$67,294,303.54

BUT—and this is the point—they estimated that the amount of these appropriations which the State's books indicated would have to be spent between Oct. 1, 1914, and Sept. 30, 1915, was only $49,893,013.83, leaving a balance on Oct. 1, 1915, of $17,401,289.71.

From this they deducted the amount which the Governor estimated would lapse, amounting to $1,102,713.90, leaving an unexpended balance of appropriations on Sept. 30, 1915, which they, therefore, estimated at $16,298,575.81.

In other words, the accountants certify that, after examining the State's books, they find that this balance of $16,298,575.81, while available on Oct. 1, 1915 (because proper appropriations to that amount will have been made) will not, as a matter of fact, be expended on

that date, because there is no likelihood of any corresponding obligation being incurred which will be payable prior to Oct. 1, 1915.

Appropriation Bills.

Appropriation bills or appropriation acts take various forms and the distinction between them is of vital importance to any understanding of State finances.

The most important bill or act is the General Appropriation bill, entitled "An act making appropriations for the support of government." This act does not make any money immediately available; but it expressly provides that the various amounts therein named "are hereby appropriated and authorized to be paid for the fiscal year beginning on Oct. 1"—that is the next fiscal year. The appropriation bill in 1914 for 1915 was $30,276,548.25.

The only other bills which expressly relate to the next fiscal year are bills making contributions to the Sinking Fund. These also expressly provide that the sums therein mentioned are appropriated as an annual contribution for the fiscal year beginning Oct. 1. These contributions in 1914 for 1915 were $7,677,138.99.

The most important bill after the General Appropriation bill is the Supply bill, known as "An act making appropriations for certain expenses of Government and authorizing miscellaneous appropriations and supplying deficiencies in former appropriations." This bill makes the various amounts therein specified immediately available. **It must, therefore, be reckoned with in making an estimate for the fiscal year during which it is passed ending Sept. 30, whereas the items in the General Appropriation bill do not have to be reckoned with, except in connection with the succeeding fiscal year commencing Oct. 1.**

In addition to the Supply bill, there are a large number of special bills variously entitled "An act

making appropriations for," &c. Special bills, like the Supply bill, make the sums therein mentioned immediately available, so that the aggregate amount of special bills like the total amount of the items of the Supply bill, is to be reckoned with during the fiscal year in which they are passed. The aggregate amount of Supply and Special bills in 1914 for 1914 was $9,845,840.50.

In addition to the bills already enumerated, there are reappropriation bills, entitled "An act reappropriating," &c. These bills find their necessity in the constitutional provision that an appropriation must be paid within two years after the passage of the appropriation act; and the object of a reappropriation bill is to save an unexpended appropriation from lapsing, by reappropriating it for the same purpose and giving it a further period of availability.

Estimating the Condition of the State.

If the foregoing distinctions are borne in mind, the problem of making an estimate for a given fiscal year presents no particular difficulty.

The Constitution provides that the Governor at every session must communicate by message to the Legislature "the condition of the State." (Article 4, Sec. 4.) A Governor has before him two entirely different sets of conditions. In the first place, he wants to know and communicate to the Legislature how his administration is going to come out in the present fiscal year, that is, the year which commenced on the preceding Oct. 1; he also wishes to know and communicate what should be necessary for the fiscal year commencing on the next Oct. 1. He will wish to indicate, among other things, what supply and special bills are immediately necessary for the present year and what general appropriations will be necessary for the next fiscal year; and he will also wish to indicate how the liabilities represented by these appropriations are to be paid.

Estimate of New York City Accountants.

In order to explain this process of estimate-making by a Governor, I do not see how I can do better than to take the figures of the New York City accountants, who were recently sent to Albany, and to endeavor to communicate to those who read this article the condition of the State as shown by these accountants' figures.

In the first place, it will be noted that the accountants properly make two estimates, one for the fiscal year ending Sept. 30, 1915, and the second for the fiscal year commencing Oct. 1, 1915.

Taking first the estimate for the present fiscal year, the accountants report the State's resources to be:

Oct. 1, 1914, cash balance	$10,589,727.96
Direct State tax	1,303,448.58
Indirect State taxes (estimated)	38,204,021.58
Miscellaneous revenue (estimated)	3,859,316.44
Total	$53,756,514.56

We have already seen that they estimate that the amount of appropriations which the State's books indicate will have to be spent prior to Sept. 30, 1915, is $49,893,013.83, leaving a cash surplus on Oct. 1, 1915, which they therefore estimate at $3,863,500.73 (*ante*, p. 5).

Taking, second, the accountants' estimate for the next fiscal year, commencing Oct. 1, 1915, the accountants report the State's resources, including the estimated cash balance of $3,863,500.73, to be $47,030,287.33. They estimate the total appropriations as follows:

Unexpended balance, Oct. 1, 1915, estimated, as already stated, at	$16,298,575.81
Appropriation bill, 1915 for 1916, estimated at	30,000,000.00
Sinking fund of 1915 for 1916, estimated at	8,000,000.00
Special and supply bills, 1916 for 1916, estimated at	11,000,000.00
Total	$65,298,575.81
They next estimate that the amount of these appropriations which the State's books indicate will have to be spent prior to Sept. 30, 1916, is	$52,338,860.65
And they thus arrive at their estimate that the cash deficiency on Oct. 1, 1916, will be the difference between $47,030,287.33 and $52,338,860.65 amounting to	5,308,573.32

In the same connection, it will be noted that the difference between $65,298,575.81 and $52,338,860.65 represents an estimated lapse of appropriations amounting to $500,000, and an estimated unexpended balance of appropriations on Oct. 1, 1916, amounting to $12,459,715.16.

In other words, the accountants certify that, after examining the State's books, they find that this balance of $12,459,715.16, while available on October 1, 1916 (because proper appropriations to that amount will have been made), will not as a matter of fact be expended on October 1, 1916, because there is no likelihood of any corresponding obligation being incurred which will be payable prior to Oct. 1, 1916.

If I may enter with the accountants into the realm of estimate and conjecture, I should walk hand in hand with them most of the road on which they travel. There are two points, however, at which I think I would be justified in taking issue with them. As above stated, they include in their estimate of the Special and Supply bills, to be passed at this session, the full sum of $15,524,209.54 (*ante*, p. 5). The

City Controller has recently given testimony that the Governor is " very emphatic " that he is going to make a radical cut in this figure ; and I am in hopes that the figure may be so reduced that it, of itself, will dispose of the estimated cash deficiency on Oct. 1, 1916, of $5,308,573.32.

I also think that the accountants' estimate of the Special and Supply bills of 1916 at $11,000,000 is too high. They were less than $10,000,000 in 1914, and if they approach anything like $15,000,000 in 1915, they clearly should run a great deal lower in 1916 than in either of the two preceding years. In fact, one of the Assembly leaders was recently quoted as saying that if they could take care of the necessary portion of the $15,524,209.54 this year, there would not be need for any Supply bill next year.

Gov. Whitman's Estimate.

Thus far I have kept away from my recent controversy with Gov. Whitman. Gov. Whitman made a splendid District Attorney, and I want to say in good faith that I hope he will make a splendid Governor. I do not want to reopen our controversy, except merely in so far as it is necessary to run over his estimate once again and explain the startling discrepancy between his figures, on the one hand, and those of the City's accountants, on the other.

Gov. Whitman estimates the State's resources for the present fiscal year to be $52,881,224.38, as against the accountants' estimate of $53,756,514.56. This difference is of no consequence for the purposes of this article.

He then says that the total adjusted appropriations chargeable against the present fiscal year, if his Supply and Special bills of $15,795,000 are passed, will amount to $63,694,527.74 instead of last year's total of $47,-899,527.74, a difference, he asserts, of $15,795,000, leaving a deficit, for which no money is available of $10,-813,303.36.

In other words, Gov. Whitman reports a deficit on Oct. 1, 1915, of $10,813,303.36, as against the accountants' report of a surplus on that date of $3,863,500.73. Where is the discrepancy ? Curiously enough, it is not difficult to find. The Governor arrives at his total sum of $63,694,527.74 as follows :

Controller's estimate	$47,899,527.74
Special and Supply bills, 1915	15,795,000.00
Total	$63,694,527.74

But what is this $47,899,527.74 ? It represents the the total appropriation bills enacted in 1914, as follows :

General appropriations for fiscal year Oct. 1, 1914, to Sept. 30, 1915	$30,376,548.25
Supply and special bills for fiscal year Oct. 1, 1913, to Sept. 30, 1914	9,845,840.50
Contribution for sinking fund for year Oct. 1, 1914, to Sept. 30, 1915	7,677,138.99
Total appropriations	$47,899,527.74

In other words, the Controller in making his estimate for 1915 took the General Appropriation bill and the contribution to the sinking fund which were actually made in 1914 for 1915 and added to these the amount of the Special and Supply bills enacted in 1914 for 1914, **treating these as a perfectly natural and probable estimate for the same class of Special and Supply bills for 1915.** Thus, Governor Whitman in taking the figure of $47,889,527.74 himself included an estimate of $9,845,-840.50, or approximately $10,000,000, for Special and Supply bills to be enacted in 1915 for 1915, although his attention was not directed to the fact that this figure included this $10,000,000. Even if we assume, therefore, that all the Governor's items, amounting to $15,795,000 are necessary subjects of Special and Supply bills for 1915, the amount which the Governor should have added to the $47,899,527.74 is the excess of $15,795,000 over the Controller's estimate of $9,845,-

840.50 or $5,949,159.50, making a total for 1915 of $53,848,687.24 instead of $63,694,527.74.

This will readily be seen if we eliminate the Controller's estimate altogether and start afresh. Then the condition of the State will be seen to be:

1914 appropriations for 1915	$30,376,548.25
Sinking fund contribution, 1914 for 1915	7,677,138.99
Gov. Whitman's new estimate for special and supply bills for 1915	15,795,000.00
Total	$53,848,687.24

In other words, those who prepared the Governor's figures for him made, at this point, an obvious duplication of approximately $10,000,000.

Outside of this manifest error, the criticism which I would respectfully make of the Governor's message is that, unlike the city accountants, he does not clearly distinguish between the two fiscal years for which the Legislature must make provision. In reading his message one gets the impression that no sinking fund contribution was made for 1915, because after charging that there will be a deficiency on Oct. 1, 1915, of $10,000,000, he proceeds at once to suggest that there must be a direct tax for another $8,000,000 to cover the contribution to the sinking fund. This, of course, is not so, because the $47,899,527.74, on which he himself bases all his figures, contains an item of $7,677,138.99 for sinking fund contribution in 1914 for 1915. This is Duplication No. 2, amounting to $8,000,000.

The real confusion is in not clearly distinguishing between the fiscal year 1914–1915 and the fiscal year 1915–1916. When that is once done, it becomes perfectly apparent that even if the Governor enacts his whole program of $15,795,000 special and supply bills this year, and even if he permits the Legislature of 1916 to enact as much as $11,000,000 of special and supply bills, the deficiency on Oct. 1, 1916, will not be more than $5,308,573.32.

Controller Prendergast's Estimate.

Controller Prendergast's estimate differed fundamentally from the Governor's estimate in that, whereas the Governor started with the State Controller's estimate as his basis, Controller Prendergast employed the figures of the city's accountants, which I have fully discussed.

The Controller drew a more pessimistic inference from the accountants' figures than those figures will stand. He argued that the accountants' estimated cash deficiency on Oct. 1, 1916—$5,308,573.32—was all well enough, but he wanted to know why good finance did not require us also to take into consideration the estimated unexpended balances on that date, amounting to $12,459,715.16? The two items, he pointed out, would amount to approximately $18,000,000.

After what has already been said the reader can probably give the answer as quickly as the writer. The figure of $5,308,573.32 was arrived at by the accountants after balancing probable resources and probable payments for obligations; and an unexpended balance of an appropriation is not an obligation. In other words, in order to arrive at the $5,308,573.32, the accountants very carefully went over the State's books and looked at the real obligations. After looking into the obligations, present and future, covering the period right down to Oct. 1, 1916, they estimated the payments out of appropriations which would be necessary to meet such obligations and certified that there would be no obligations, so far as they could estimate, which would need one penny on account of the balance of $12,459,715.16 during this period. That figure, therefore, has absolutely nothing to do with the case; and to treat it as a liability, either in whole or in part, is to disregard the fundamental distinction between an obligation and an appropriation.

Controller Travis' Estimate.

On March 19th, State Controller Travis entered the discussion for the first time; and he produced some new figures. In other words, he did not follow the original State Controller's report, on which the Governor based his estimate, or the City's accountants' report, on which Controller Prendergast based his estimate.

The novelty about Controller Travis' figures is that he makes the alarming statement that our resources for the next two years are going to be $10,000,000 less than that which experience indicated they would be. With this prophecy this article has nothing to do. If the future shows that the experience of the past has been wrong and that the former State Controller and Gov. Whitman, though basing their figures on experience, are not going to be affirmed by the actual facts because of conditions which are going to reduce our resources, then obviously there will be a need for additional revenue to supply that particular kind of deficiency. Controller Travis, however, does not explain why he is constrained to make this arbitrary cut. Moreover, Controller Travis' estimate is open to the further criticism that he treats all appropriations as liabilities, instead of following the city accountants, who scientifically examined the State's books and made an estimate of actual obligations. The method adopted by the city accountants, however, is clearly the proper one, and I do not believe my readers wish me to make a more elaborate analysis of the learned Controller's estimate. In so far as he arbitrarily reduces the estimates of resources, we shall have to wait and hope. In so far as he treats gross appropriations as gross liabilities, he is in error.

President McAneny's Statement.

On March 19th, George McAneny, President of the Board of Aldermen of New York City, also joined the discussion. He did not submit any detailed figures; but his conclusion was that the accountants' report established "that with prudent regard for obvious economies at Albany no direct tax in any sum will be justified."

Conclusion.

I hope that I have been able to write this article in such a way that those who are interested have been able to follow the somewhat bewildering marshaling of figures and unite in my conclusion that, under Governor Whitman's figures, no direct tax will be necessary this year or next year and that, under the City's accountants' figures, the maximum amount of direct tax will be about $5,000,000. I also want it to be clear that this $5,000,000 will only be necessary in case $26,000,000 is appropriated this year and next for special and supply bills, that is, unless we are faced in fact by the Governor's estimate of over $15,000,000 for this year and the accountants' rough estimate of $11,000,000 for next year.

Personally, I am confident that the Governor will emasculate by veto this $26,000,000, and that when Oct. 1, 1916, arrives and Governor Whitman is about to reach the end of his first administration, he will have a cash surplus in the bank and will have the credit of not having levied any direct tax upon the overburdened citizens of the State of New York.

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